



UPDATE

Setting the Record Straight:

The Republican Raid on Student Aid Makes College
More Expensive for American Families

A point by point analysis of the Republican Budget
Cuts to Student Aid

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SETTING THE RECORD STRAIGHT:

The Republican Raid on Student Aid Makes College More Expensive for American Families

MYTH: House Republicans are not making any cuts to the student aid programs

√ **FACT:** According to the Congressional Budget Office (CBO) analysis, the Republican higher education reconciliation bill cuts \$14.3 billion from the student aid programs....page 1

√ **FACT:** According to CBO analysis, the Republican higher education reconciliation bill cuts \$2.2 billion in student aid delivery funds.....page 5

MYTH: House Republicans are making college more affordable for students and families

√ **FACT:** According to CBO analysis, the Republican higher education reconciliation bill includes \$7.8 billion in new charges on student and parent borrowers including:

- Charging student and parent borrowers an additional \$5.46 billion on their consolidation loanspage 2

- Charging borrowers \$505 million more for their loans by repealing current law, which sets the maximum student loan interest rate at 6.8 percent and the maximum parent loan interest rate at 7.9 percent.....page 2

- Charging students and parents \$1.82 billion in higher loan taxes.....pages 2-3

The Republican Raid on Student Aid Makes College More Expensive for American Families – Even As Congress Plans New Tax Cuts for Millionaires

INTRODUCTION

This month, House Republican leaders plan to cut **\$14.3 billion¹ from the federal student aid programs**. This Raid on Student Aid **represents the single largest cuts in the history of the student aid programs**.

Included in these cuts are nearly \$8 billion in new charges to students and families that will raise the cost of their college loans. As a result of these cuts, the typical student borrower, already saddled with \$17,500 in debt, will be forced to pay an additional \$5,800 for his or her college loans².

Republicans are planning this assault on students and their families at the same time that they are preparing to cut taxes for millionaires by tens of billions of dollars. By choosing tax cuts for the rich over making college more affordable, Republicans will deny millions of low and middle-income students the chance to go to college – and they will undermine the U.S. economy for generations to come.

Democrats have a better idea for America: To make college more affordable for students and families by lowering the cost of borrowing to pay for college and by increasing the Pell Grant scholarship. And Democrats have a plan to accomplish these goals without costing taxpayers an extra dime or adding to the budget deficit. (For more information on Democrats' ideas for college affordability, visit: www.house.gov/georgemiller)

This report provides a point-by-point examination of how the Republican Raid on Student Aid will make college more expensive for students and their families by charging borrowers more for their college loans and cutting student aid and benefits.

¹ A Congressional Budget Office (CBO) analysis, from October 31, 2005, shows that the changes in the Republican House Education and the Workforce reconciliation bill, makes \$14.3 billion in net cuts (outlays) through 2010.

² Figures based on typical undergraduate student loan debt of \$17,500 and a repayment term of 15 years.

I. HOW THE REPUBLICAN RAID ON STUDENT AID FORCES STUDENTS AND FAMILIES TO PAY EVEN MORE FOR COLLEGE

► Raises Borrower Interest Rates and Taxes (Fees) on Consolidation Loans

While the Republican bill allows student borrowers to choose a fixed or variable interest rate when they consolidate, it raises the interest rate on fixed consolidation loans by 1 percentage point and forces all borrowers who consolidate their loans (whether they consolidate at a fixed or a variable interest rate) to pay a new 1% tax.

As a result of this change alone, the typical student borrower will have to pay up to \$1,800 more for his or her college loans when they consolidate than they would have to pay under current law.

According to Congressional Budget Office (CBO) analysis, these changes raise costs on borrowers by \$5.46 billion through 2010.

► Makes College More Expensive by Repealing Current Law, Which Sets the Maximum Student Loan Interest Rate at 6.8%

In 2002, Congress passed legislation to lower the interest rates for student and parent borrowers starting in July of 2006. This legislation ensured that student loan interest rates would not rise above 6.8 percent (today the current cap on student loan interest rates is set at 8.25 percent). It also ensured that parent borrower interest rates would not rise above 7.9 percent (today the current cap on parent loan interest rates is set at 9.0 percent).

The Republican raid on student aid breaks these promises—repealing the scheduled July 2006 decrease in the maximum rates to 6.8 percent for students and 7.9 percent for parents. Under the Republican bill, interest rate caps would stay at 8.25 and 9.0 percent. As a result of this change alone, the typical student borrower, with \$17,500 in debt, would be forced to pay as much as \$2,600 more for his or her loans than they would have to pay under current law.

According to CBO analysis, this change raises costs on borrowers by \$505 million through 2010.

► Raises Student Loan Taxes and Eliminates Critical Borrower Benefits that Encourage On-Time Repayment and Lower Interest Rates

The bill requires lenders to charge student and parent borrowers a 1% ‘insurance’ tax on their college loans. Under current law, lenders may charge – but do not have to

charge – this tax, and most lenders currently waive the fee, but the Republican bill requires borrowers to pay this tax. As a result, the typical student borrower will be forced to pay an additional \$175 each time they take out a college loan.

According to CBO analysis, this change raises costs to borrowers by \$1.47 billion through 2010.

The Republican Raid on Student Aid also doubles the current 1.5% origination fee to 3% for students who borrow through the Federal Direct Student Loan program in 2006. Currently, the Secretary of Education charges a 3% origination fee and offers a 1.5% reduction in this fee to borrowers who make 12 on-time repayments on their loans—which results in a 1.5% origination fee.

While in the long run the bill reduces origination fees for borrowers in the Direct Loan program, it actually raises these fees between 2005 and 2009.

The Republican bill eliminates the Secretary of Education's authority to provide on-time repayment benefits, such as lower interest rates, to student borrowers in the Direct Loan program. *(It is through this benefit that the Secretary of Education is able to offer borrowers in the DL program a reduced 1.5% origination fee).* Yet private banks that participate in the guaranteed loan program (also known as the Federal Family Education Loan Program) currently offer similar benefits to their student borrowers. The Republican bill does not put a similar restriction on the banks.

According to CBO analysis, eliminating this 1.5% origination fee rebate raises costs to borrowers with Direct Loans by \$350 million through 2010.

All told, the Republican Raid on Student Aid includes \$7.8 billion in new charges on student and parent borrowers through 2010.

II. THE REPUBLICAN BILL REQUIRES LENDERS TO REBATE BILLIONS IN EXCESSIVE STUDENT AND PARENT INTEREST RATES—BUT FAILS TO GIVE STUDENTS AND PARENTS THEIR MONEY BACK

In addition to the \$7.8 billion in new charges, the Republican bill forces student and parent borrowers to pay \$5.22 billion towards new tax cuts for the super rich—money that should be rebated to students and parents.

In 2004-2005, 9.7 million students borrowed federal education loans and more than 800,000 parents borrowed federal education parent loans.

Under current law, banks that participate in the federal college loan program are guaranteed a fair market return when they lend to students and parents. This fair market return is calculated on a different basis than the interest rates that students and parents pay on their loans. Often the interest rates that

student and parent borrowers pay to lenders are more than the fair market return. When this happens, lenders receive this windfall, or additional interest payments made by students and parents, as profit.

Under current law, lenders keep this windfall profit. Yet, when student and parent borrower interest rates are such that they pay less than fair market return to lenders, the federal government pays lenders the difference to ensure that they receive fair market return on the loans.

The Republican bill changes current law, so that when lenders earn more than fair market return they must rebate these windfall profits, or excessive interest payments made by students and parents to the federal government. However, the Republican bill fails to require the lenders to rebate these excess interest payments to the students and parent borrowers who are paying too much. Instead, it funnels billions in excessive interest payments made by students and parents to pay for new tax cuts for the super rich.

According to CBO analysis, these excess interest payments made by student and parent borrowers will total \$5.22 billion dollars through 2010.

Combined with the cuts to borrowers the Republican bill forces students and parents to pay \$13 billion for the new tax cuts for the super rich.

III. THE REPUBLICAN BILL PLACES BILLIONS IN STUDENT GRANT AND LOAN FUNDS AT RISK BY ELIMINATING THE DELIVERY FUNDS USED TO PROCESS AND DISBURSE FEDERAL AID TO STUDENTS AND FAMILIES

In addition to the new charges on student and parent borrowers, the **Republican bill put billions of dollars in student aid at risk by cutting critical funds used to carry out and administer the student aid programs.**

The Republican bill cuts all of the mandatory administrative funds needed each year to:

- Disburse almost \$117 billion in student aid grants and loans to nearly 10 million students and parents;
- Process approximately 13 million federal financial aid applications;
- Oversee the participation of more than 6,200 schools, 3,400 lenders, dozens of guaranty, accrediting, and state agencies; and,
- Collect and manage about \$100 billion in outstanding direct loans.

According to CBO, these cuts generate \$2.2 billion through 2010.

Republicans will argue that these \$2.2 billion in critical funds will now be funded through the appropriations process. But this is at best a budget gimmick and at worst a misguided budget trick that will destabilize student aid delivery for millions of students and families.

The Republican bill will force these critical student aid delivery funds to compete against all the other programs that receive discretionary funding through the annual appropriations process. By cutting the student aid program's mandatory administrative funds, the Republican bill reneges on a promise that all students and families who seek, and are qualified to receive, student loans will be able to get them.

These cuts will jeopardize the Department of Education's ability to administer the student aid programs – which have a long history of fraud and abuse – safely and soundly.

IV. ADDITIONAL CUTS IN THE REPUBLICAN BILL

The Republican bill also raises \$5.04 billion by making cuts to some of the excessive lenders subsidies and charging higher fees to lenders.

After mounting pressure from Democrats, editorial writers and the public, the Republican bill finally closes the 9.5 percent lender loophole, which allowed lenders to collect billions in excessive subsidies on a subset of student loans.

According to the Congressional Budget Office, the closure of this loophole will generate \$1.80 billion dollars in savings through 2010—money which should be reinvested into student aid. Unfortunately, the Republicans are using these savings to pay for new tax cuts for the super rich.

The Republican bill also reduces some of the excessive subsidies for guaranty agencies, or lenders who administer the federal guarantee on student loans. However, the bill does not completely eliminate these subsidies, as recommended by President Bush in his 2006 education budget.

According to CBO this change saves \$1.41 billion through 2010. (By comparison CBO found that President Bush's proposal to reduce these excessive subsidies would save \$2.23 billion through 2010).

The Republican bill also raises the current lender paid origination fee from 0.5% to 1% and raises the lender portfolio consolidation fee from 1.05% to 1.30% for lenders who hold high levels of consolidation loans.

According to CBO these two changes raise \$1.83 billion through 2010.

V. REPUBLICAN RAID ON STUDENT AID MISSES RARE OPPORTUNITY TO CUT WASTEFUL SUBSIDIES AND USE SAVINGS TO MAKE COLLEGE MORE AFFORDABLE

For years Republicans believed it was acceptable to spend billions in excessive subsidies for profitable banks. In the face of widespread criticism, they've finally admitted that these subsidies are a waste of taxpayer dollars. But they refuse to use the savings from cutting these subsidies to make college more affordable. Instead, they're choosing tax cuts for the rich.

VI. LIMITED SPENDING ON STUDENT BENEFITS

The Republican bill also raises annual loan limits for freshmen and sophomores and graduate students and reduces origination fees for certain student borrowers.

As a result of this change in loan limits, students will be able to borrow more and will graduate with higher levels of debt—repaying not only the money lent, but the interest that accrues over the repayment term. It is also important to note that under current law, many lenders in the guaranteed student loan program do not charge students any origination fees, or charge them discounted origination fees.

According to CBO, these changes cost \$3.84 billion through 2010.

The Republican bill also provides approximately \$480 million in expanded loan cancellation and deferment.

VII. CONCLUSION

The Republican Raid on Student Aid makes \$14.3 billion in overall cuts from the federal student aid programs—including \$7.8 billion in new charges on students and parent borrowers for their college loans—in order to pay for new tax cuts for the super rich.

American students and families need more affordable college opportunities. Significantly boosting these opportunities is critical to the success of the American economy and the nation's ability to maintain and grow our competitive edge in the global economy.

Not only does the Republican Raid on Student Aid fail on this account, but it actually makes the largest single cut to the student aid programs ever—more than \$14 billion. As a result, students will be forced to pay thousands of dollars more for college.

This Republican Raid on Student Aid squanders a rare chance to re-deploy billions of dollars, saved from cuts to excessive lender subsidies, toward boosting grant aid and lowering the cost of borrowing to students.

Rather than advance this partisan legislation, which is opposed by students, colleges, and consumer groups alike, Congress should focus on increasing affordable college opportunities for all Americans.

The reauthorization of the Higher Education Act offers the Congress an opportunity to ensure college access to all Americans. Unfortunately, the Majority has chosen to pass up this rare opportunity and instead is making low- and middle-income college students and families pay for billions in new tax cuts for the super rich.